

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY FLOOD CONTROL DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder

January 17, 2006

**County of San Bernardino Special Districts
Flood Control District**

Table of Contents

	Page
Independent Auditor's Report.....	1-2
Basic Financial Statements	
Government-Wide Financial Statements	
Balance Sheet.....	3
Statement of Activities	4
Fund Financial Statements	
<i>Governmental Funds</i>	
Balance Sheet.....	5
Reconciliation of Governmental Funds Balance Sheet to Balance Sheet.....	6
Statement of Revenues, Expenditures, and Changes in Fund Balance.....	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	8
<i>Proprietary Funds</i>	
Balance Sheet.....	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets.....	10
Statement of Cash Flows	11
<i>Fiduciary Funds</i>	
Statement of Fiduciary Net Assets	12
Notes to the Financial Statements	13-33
Required Supplementary Information	
Budgetary Comparison Schedule Governmental Funds-Schedule One.....	34
Supplementary Information	
Combining Balance Sheet (Zones 1-6, LADP and NPDES)-Schedule Two	35
Combining Statement of Revenues, Expenditures and Changes in Fund Balance (Zones 1-6, LADP and NPDES) - Schedule Three.....	36

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

January 17, 2006

Patrick J. Mead, Director
Department of Public Works
825 East Third Street
San Bernardino, CA 92415-0835

**SUBJECT: AUDIT OF SAN BERNARDINO COUNTY FLOOD CONTROL
DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the Flood Control District for the fiscal year ended June 30, 2005.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining aggregate fund information of the County of San Bernardino Flood Control District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2005, which collectively comprise the Special District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant

used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the District, as of June 30, 2005, and the respective changes in financial position and cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 34 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Howard M. Ochi, CPA
Chief Deputy Auditor

Quarterly copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

Audit File (3)

Date Report Distributed: 10/26/06

**County of San Bernardino
Flood Control District
Balance Sheet
June 30, 2005**

	<u>Governmental Activities Flood Control</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 48,773,943
Cash with fiscal agent	12,708
Restricted cash	172,952
Customer deposits	60,000
Interest receivable	318,630
Taxes receivable	1,582,353
Due from other governments	12,153,887
Total current assets	<u>63,074,473</u>
Noncurrent assets:	
Loans receivable	3,953,417
Capital assets:	
Structures	425,843
Construction in progress	32,572,002
Infrastructure	334,916,139
Equipment and vehicles	10,294,777
Less accumulated depreciation	<u>(170,962,064)</u>
Total noncurrent assets	211,200,114
Total assets	<u><u>\$ 274,274,587</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 451,086
Salaries and benefits payable	668,018
Retention payable	179,003
Due to other governments	3,842,618
Capital leases	71,154
Deferred revenue	78,999
Loans payable	681,315
Customer deposits	196,420
Total current liabilities	<u>6,168,613</u>
Noncurrent liabilities:	
Capital leases	82,710
Employee compensated absences	1,543,768
Loans payable	25,221,994
Total noncurrent liabilities	<u>26,848,472</u>
Total liabilities	<u>33,017,085</u>
NET ASSETS	
Invested in capital assets, net of related debt	181,189,524
Restricted assets	172,952
Unrestricted	59,895,026
Total net assets	<u>241,257,502</u>
Total liabilities and net assets	<u><u>\$ 274,274,587</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Statement of Activities
For the Fiscal Year ended June 30, 2005**

	Governmental Activities
	Flood Control
EXPENSES	
Salaries and benefits	\$ 10,919,261
Services and supplies	40,013,769
Professional services	366
Depreciation	7,279,234
Interest	36,700
Total expenses	<u>58,249,330</u>
PROGRAM REVENUES	
Operating grants and contributions	14,496,152
Charges for services	<u>2,612,437</u>
Total program revenues	<u>17,108,589</u>
Net program revenue (expense)	<u>(41,140,741)</u>
GENERAL REVENUES	
Property taxes	22,836,734
Other taxes	1,686,905
Interest	1,171,768
Rents, concessions and royalties	1,363,382
Gain on sale of capital assets	3,612,328
Other revenues	<u>1,642,629</u>
Total general revenues	<u>32,313,746</u>
Change in net assets	(8,826,995)
Net assets - beginning	<u>250,084,497</u>
Net assets - ending	<u><u>\$ 241,257,502</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Balance Sheet
Governmental Funds
June 30, 2005**

	<u>Governmental Activities Flood Control</u>
ASSETS	
Cash and cash equivalents	\$ 46,844,793
Cash with fiscal agent	12,708
Restricted cash	172,952
Customer deposits	60,000
Interest receivable	308,278
Taxes receivable	1,582,353
Due from other governments	12,153,670
Total assets	<u>\$ 61,134,754</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 451,086
Salaries and benefits payable	666,598
Retention payable	179,003
Due to other governments	3,842,618
Deferred revenue	78,999
Customer deposits	196,420
Total liabilities	<u>5,414,724</u>
Fund Balances:	
Reserved for encumbrances	14,459,356
Unreserved	41,260,674
Total fund balances	<u>55,720,030</u>
Total liabilities and fund balances	<u>\$ 61,134,754</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Reconciliation of Governmental Balance Sheet
To Balance Sheet
Governmental Funds
For the Fiscal Year Ended June 30, 2005**

Fund balance	\$ 55,720,030
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Amounts reported for *governmental activities* in the Statement of Net Assets are different because:

Internal Service Fund's working capital is combined into the Government-wide statement of net assets for reporting purposes.	1,938,299
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	207,246,697
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Some current and long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental's Fund Balance Sheet.	(27,600,941)
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Long-term receivables related to capital assets are not receivable in the current period and are not reported in the Governmental Fund's Balance Sheet.	3,953,417
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Net assets of governmental activities	<u><u>\$ 241,257,502</u></u>
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The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2005**

	Governmental Funds <u>Flood Control</u>
REVENUES	
Property taxes	\$ 22,836,734
Other taxes	1,686,905
Interest	1,138,958
Government aid and grants	18,158,308
Rents, concessions and royalties	1,363,382
Other revenues	1,638,214
Total revenues	<u>46,822,501</u>
EXPENDITURES	
Salaries and benefits	10,730,957
Services and supplies	37,123,557
Debt service - principal	681,315
Debt service - interest	33,937
Capital outlay	14,912,523
Total expenditures	<u>63,482,289</u>
Excess (deficiency) of revenues over (under) expenditures	(16,659,788)
OTHER FINANCING SOURCES	
Sale of capital assets	3,405,783
Total other financing sources	<u>3,405,783</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(13,254,005)
Fund balance - beginning	<u>68,974,035</u>
Fund balance - ending	<u><u>\$ 55,720,030</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
For the Fiscal Year Ended June 30, 2005**

Net change in fund balances-total governmental funds	\$ (13,254,005)
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Amounts reported for governmental activities in the statement of activities are different because:

Internal Service Fund's net change in fund balance is "rolled into" the governmental fund's fund balance for reporting purposes on the Government-wide statement of activities. This is the amount by which the internal service fund's net assets increased.	13,576
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	8,805,583
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Various projects that were capitalized as Construction in Progress in prior years result in a capital asset and are recorded as expenses in the current year. These expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(1,242,968)
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In the statement of activities, only the gain on the sale of fixed assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the the change in fund balance by the cost of the fixed assets sold.	(22,019)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,980,841)
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Some expenses (i.e. employee compensated absences increase) reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(146,321)
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Change in net assets of governmental activities	<u>\$ (8,826,995)</u>
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The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Balance Sheet
Proprietary Funds
June 30, 2005**

	<u>Internal Service Fund Equipment Rental</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,929,150
Interest receivable	10,352
Due from other governments	217
Total current assets	<u>1,939,719</u>
Noncurrent assets:	
Capital assets:	
Equipment and vehicles	10,017,902
Less accumulated depreciation	<u>(5,314,023)</u>
Total noncurrent assets	<u>4,703,879</u>
Total assets	<u><u>\$ 6,643,598</u></u>
 LIABILITIES	
Current liabilities:	
Salaries and benefits payable	\$ 1,420
Capital leases current	32,972
Total current liabilities	<u>34,392</u>
Noncurrent liabilities:	
Capital leases	<u>2,980</u>
Total noncurrent liabilities	<u>2,980</u>
Total liabilities	<u>37,372</u>
 NET ASSETS	
Invested in capital assets, net of related debt	4,667,927
Unrestricted	<u>1,938,299</u>
Total net assets	<u>6,606,226</u>
Total liabilities and net assets	<u><u>\$ 6,643,598</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2005**

	Internal Service Fund <u>Equipment Rental</u>
OPERATING REVENUES	
Charges for services	\$ 2,612,437
Total operating revenues	<u>2,612,437</u>
OPERATING EXPENSES	
Salaries and benefits	41,983
Services and supplies	1,647,244
Professional services	366
Depreciation	1,172,294
Total operating expenses	<u>2,861,887</u>
Operating income (loss)	<u>(249,450)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	32,810
Gain on sale of capital assets	228,564
Interest expense	(2,763)
Other nonoperating revenue (expense)	4,415
Total nonoperating revenues (expenses)	<u>263,026</u>
Change in net assets	13,576
Net assets-beginning	<u>6,592,650</u>
Net assets-ending	<u><u>\$ 6,606,226</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2005**

	Internal Service Fund Equipment Rental
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 2,661,229
Payments to employees for services	(41,784)
Payments to suppliers for goods and services	(1,716,535)
Net cash provided (used) by operating activities	<u>902,910</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construction and improvement of capital assets	(1,432,163)
Proceeds from the sale of capital assets	526,396
Principal paid on capital leases	(31,440)
Interest paid on capital leases	(2,763)
Net cash provided (used) by noncapital financing activities	<u>(939,970)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease in fair value of investments	4,415
Interest	30,858
Net cash provided (used) by investing activities	<u>35,273</u>
Net increase (decrease) in cash and cash equivalents	(1,787)
Cash and cash equivalents - beginning	<u>1,930,937</u>
Cash and cash equivalents - ending	<u><u>\$ 1,929,150</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	
Operating income (loss)	\$ (249,450)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation expense	1,172,294
Change in assets and liabilities:	
Decrease in receivables, net	48,792
Increase in accounts and other payables, net	(68,726)
Net cash provided (used) by operating activities	<u><u>\$ 902,910</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Statement of Fiduciary Net Assets
Agency Fund
June 30, 2005**

	The California Storm Water Best Management Practice Fund
ASSETS	
Cash and cash equivalents	<u>\$ 1,245</u>
Total current assets	<u><u>\$ 1,245</u></u>
 LIABILITIES	
Due to bondholders	<u>\$ 1,245</u>
Total liabilities	<u><u>\$ 1,245</u></u>

The notes to the financial statements are an integral part of this statement.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Flood Control District (District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established under Chapter 73 of the 1939 Statutes for the State of California. The District's powers are exercised through the Board of Supervisors (Board), which is the governing body for the County. The District maintains and constructs flood control channels, basins, storm drains and dams in six geographical zones within San Bernardino County. The District also works with the neighboring counties of Los Angeles, Riverside and Orange to maintain flood control systems and clean up after disasters.

The governmental reporting entity consists of the six flood control zones, administration, the internal service fund (equipment rental) and their related groups of funds. The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

The District's six zones, administration and the internal service fund have combined resources within the County to form an integrated flood drainage and water conservation system in the incorporated and unincorporated areas of the County. The six flood control zones are as follows:

Zone	Geographical Areas (Description)
1	The westerly portion of the San Bernardino Valley extending from Beech Avenue in the Fontana area to the Los Angeles County line, all south of the San Gabriel mountain range divide. This embraces the cities or communities of Upland, Montclair, Ontario, Chino, Alta Loma, Rancho Cucamonga, Etiwanda and Guasti. (277 square miles).

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Reporting Entity – *Continued*

Zone	Geographical Areas (Description)
2	The central areas of the San Bernardino Valley east of Zone 1 to approximately the Santa Ana River and City Creek demarcations. This includes the cities of Fontana, Rialto, San Bernardino, Colton and Grand Terrace, together with the communities of Devore, Muscoy, Del Rosa, and Bloomington. (315 square miles).
3	The east end of the San Bernardino Valley east from Zone 2 including the cities and communities of Redlands, Highland, East Highland, Mentone, Yucaipa and Loma Linda. (393 square miles).
4	The Mojave River Valley from the San Bernardino mountains to Silver Lake including the cities and communities of Barstow, Hesperia, Apple Valley, Victorville, Oro Grande, Helendale, Hodge, Hinkley, Yermo and Daggett. (1,129 square miles).
5	The mountainous watershed of the Mojave River on the crest and north slopes of the San Bernardino mountains including the communities of Crestline, Lake Gregory, Lake Arrowhead, Running Springs and Green Valley Lake. (175 square miles).
6	The remainder of the County not embraced by other zones including portions of the San Gabriel and San Bernardino mountains and the semi-desert portion of the County. This embraces the cities and communities of Needles, Trona, Adelanto, Phelan, Lucerne Valley, Amboy and the Twenty-nine Palms-Morongo Valley districts. (17,900 square miles).

The District also has three Local Area Drainage Plans (LADP) and the National Pollution Discharge Elimination System Program (NPDES), which are reported with the Zones.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Government-wide and fund financial statements - *Continued*

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues and interest to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of “available” to nine months.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus, basis of accounting, and financial statement presentation - *Continued*

as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenues funds* used in Zones 1-6, LADP and NPDES are the government's primary operating funds. The funds account for all financial resources of the general government, except those required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to these same limitations. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenue of the Flood Control District is charges to customers for equipment rental. Operating expenses for the proprietary fund include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The government reports the following major proprietary funds:

The *internal service fund* labeled "Equipment Rental" accounts for the activities of renting the vehicles and equipment to the six zones in Flood Control and the County Department of Transportation.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first and then unrestricted resources, as they are needed.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus, basis of accounting, and financial statement presentation - *Continued*

results of operations. The modified accrual basis of accounting is used for the agency funds. Flood Control's *agency fund* labeled "The California Storm Water Best Management Practice Fund" is used to pay for costs associated with the update and revision of the State Best Management Practices Handbooks. Flood Control's *agency fund* labeled "The 1915 Act Bond Reserve fund" is used to account for the accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain flood control improvements. There is no outstanding bond liability at June 30, 2005.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities.

Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2005.

Receivables

All accounts receivable are shown net of an allowance from uncollectibles when applicable.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. dams, channels, drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land, structures and equipment and vehicles) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings, equipment, and vehicles are depreciated using the straight-line method or the productive hours method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Basins, storm drains, channels, dams	50 to 99 years
Vehicles, governmental funds	6 years
Equipment, governmental funds	6 to 15 years
Buildings, structures	45 years
Internal Service Fund (Enterprise) Equipment and vehicles	productive hours

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a noncurrent liability. In the event of retirement or termination, an employee is paid 100% of accumulated vacation pay, and those with ten or more years of continuous services are paid 30% to 50% of their accumulated sick leave.

Compensated absences activity for the year ended June 30, 2005 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 1,397,447	\$ 146,321	\$ -	\$ 1,543,768

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide Statement of Activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of the differences of \$8,805,583 are as follows:

Capital outlay	\$ 14,912,523
Depreciation expense	<u>(6,106,940)</u>
Change in net assets of governmental activities	<u><u>\$ 8,805,583</u></u>

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 – 29143 of the Government code of the State of California, commonly know as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2 – RESTRICTED CASH

Restricted cash consists of deposits received by the District from the Bureau of Reclamation for the Etiwanda / San Sevaine construction project that, per the loan agreement, are restricted for this project.

NOTE 3 – LOANS RECEIVABLE

Loans Receivable consists of a repayment agreement between Flood Control and the City of Rancho Cucamonga Redevelopment Agency regarding the Bureau of Reclamation Day Creek Loan. (See Note 7).

NOTE 4 – CAPITAL ASSETS

The cost of building and acquiring capital assets (land, buildings, dams, channels, storm drains, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 4 – CAPITAL ASSETS - Continued

sheet. However, the statement of net assets includes those capital assets among the assets of County Flood Control as a whole, and their original costs are expensed annually over their useful lives. For the Internal Service Fund (ICA), capital assets are recorded at historical cost or at estimated historical cost if actual cost is not available. During the year of acquisition the capital assets are capitalized in the Internal Service Fund and are depreciated over their productive hours estimated life. Depreciation Expense is recorded annually in the Internal Service Fund. Assets for both governmental and business-type activities are as follows:

	<u>Balance July 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance June 30, 2005</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Construction in progress	\$ 48,421,188	\$ 15,048,225	\$ (30,897,411)	\$ 32,572,002
Total capital assets, not being depreciated	48,421,188	15,048,225	(30,897,411)	32,572,002
<i>Capital assets, being depreciated:</i>				
Buildings	425,843	-	-	425,843
Channels, drains, dams, basins	305,542,978	29,478,318	(105,157)	334,916,139
Equipment	374,492	-	(97,617)	276,875
Total capital assets being depreciated	306,343,313	29,478,318	(202,774)	335,618,857
Less accumulated depreciation for:				
Buildings	(281,254)	(8,041)	-	(289,295)
Channels, drains, dams, basins	(159,246,803)	(6,057,843)	83,426	(165,221,220)
Equipment	(193,800)	(41,056)	97,330	(137,526)
Total accumulated depreciation	(159,721,857)	(6,106,940)	180,756	(165,648,041)
Total capital assets being depreciated, net	146,621,456	23,371,378	(22,018)	169,970,816
Governmental activities capital assets, net	\$ 195,042,644	\$ 38,419,603	\$ (30,919,429)	\$ 202,542,818
Business-type activities:				
<i>Capital assets, being depreciated:</i>				
Vehicles	\$ 9,892,970	\$ 1,425,215	\$ (1,401,600)	\$ 9,916,585
Equipment	128,094	6,948	(33,725)	101,317
Total capital assets, being depreciated	10,021,064	1,432,163	(1,435,325)	10,017,902
Less accumulated depreciation for:				
Vehicles	(5,243,906)	(1,166,118)	1,106,595	(5,303,429)
Equipment	(35,315)	(6,176)	30,897	(10,594)
Total accumulated depreciation	(5,279,221)	(1,172,294)	1,137,492	(5,314,023)
Business type activities capital assets, net	\$ 4,741,843	\$ 259,869	\$ (297,833)	\$ 4,703,879

There was a nonmonetary exchange of equal value in March 2005 between Centex Homes and Flood Control District consisting of 20 acres of land in exchange for 44.55 acres of land.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 4 – CAPITAL ASSETS - *Continued*

At June 30, 2005 the District had \$ 32,572,002 in construction in progress for the following projects:

CONSTRUCTION IN PROGRESS

CONSTRUCTION IN PROGRESS

Zone	Description	Total CIP By Project	Totals By Zone
1	West State Street Drain	\$ 14,445,316	
1	English Canyon	15,826	
1	West Fontana Channel	310,806	
1	Sultana/Cypress Storm Drain (phase 2)	411,828	
1	County Line Channel (storm drain)	1,966,097	
1	County Line Channel	1,665	
1	County Line Channel	1,562	
1	Sultana Interceptor (phase 2)	204,406	
1	San Sevaine System	47,894	
1	SPPL Relocation	133,034	
1	San Sevaine Channel IIID - Jurupa to Valley	1,063,121	
1	Etiwanda Levees	1,419,329	
1	San Sevaine RCB at Foothill	37,192	
1	Victoria Basin	19,130	
1	Etiwanda Creek - Design & Construction	223,296	\$ 20,300,502
2	Cactus Basin #1 to Bloomington	405,012	
2	Rialto Channel Phase 2	31,287	
2	Rialto Channel Phase 3	4,529	
2	Randall Basin	37,413	
2	Rialto Channel	3,553	
2	Del Rosa Channel	113,859	
2	Del Rosa Channel I	319	
2	Cactus Basin # 3	426,500	
2	Cactus Basin # 4	51,351	
2	Cacuts Basin # 5	46,400	
2	Rialto Channel (Ultimate Channel Design)	1,327,914	
2	West Fontana Channel	33,801	
2	Waterman Creek Bank Repair	3,473	
2	Lytle Cajon Channel	83,199	
2	Sand Creek/Warm Creek	14,698	2,583,308

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 4 – CAPITAL ASSETS - *Continued*

CONSTRUCTION IN PROGRESS (continued)

Zone	Description	Total CIP By Project	Totals By Zone
3	San Timeteo Channel	1,860,069	
3	San Timeteo Channel, Phase 3B	6,634,790	8,494,859
4	Oro Grande Wash Detention Basin	6,862	
4	Mojave River at I-15	551,996	
4	Hesperia Detention Basin	35,387	
4	Hesperia MPD	9,349	
4	Desert Knolls Wash	295,511	
4	Desert Knolls Wash I	157	
4	Desert Knolls Wash II	40,151	
4	Mojave River Channel	87,754	
4	Mojave River Levee Phase 2	35,287	
4	Antelope Creek Wash	40,319	
4	Choiceana Outlet @ Mojave River	9,992	
4	Kitchen Wash	6,732	1,119,497
5	Rim Forest Drainage	122	
5	Houston Creek	41,525	41,647
6	Donnell Basin	31,743	
6	Sheep Creek	446	32,189
	Totals Zones 1-6, LADP, NPDES	<u>\$ 32,572,002</u>	<u>\$ 32,572,002</u>

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 4 – CAPITAL ASSETS - *Continued*

The District has active major construction projects as of June 30, 2005. The projects are financed by government aid and property taxes and include new construction and renovations of dams, channels, basins and storm drains. At year-end the government's commitments with contractors are as follows:

Job Number	Project	Remaining Commitment
F01452	West Fontana Channel	\$ 4,574
F01087	West State Street Storm Drain	110,317
F01573	Riverside Drive Storm Drain	111,144
F01569	Grove Avenue Detention Basin	1,102
F01502	Etiwanda Levees	628,638
F01577	County Line Channel (Storm Drain)	875,000
F01312	English Canyon	433,208
F01193	Etiwanda/San Sevaine Channel/Basin	160,564
F01700	Etiwanda Channel	600
F01744	Etiwanda Creek-Design & Construction	71,596
F01333	San Sevaine System	31,242
F00998	Etiwanda San Sevaine Bureau of Reclamation	35,071
F01666	Cactus Basin #3	15,000
F01669	Rialto Channel	254,495
F01272	Cactus Basin #1 to Bloomington	119,120
F01649	Linden Avenue Storm Drain	264,925
F02091	Waterman Creek Bank Repair	268,700
F01152	San Timeteo Channel	89,400
F01510	San Timeteo Channel, Phase 3B	7,082
F01582	Desert Knolls Wash	35,499
F01389	Mojave River	1,238,688
Total		\$ 4,755,965

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 5 – CAPITAL LEASES PAYABLE

County Flood Control is leasing computer equipment, which is recorded in the Governmental funds, and six pick-up trucks, which is recorded in the Equipment fund. The District will acquire all rights and titles to the equipment and vehicles after the final lease payments are made.

The following is a schedule by year of future minimum lease payments as of June 30, 2005:

Year End June 30,	Governmental Activities	Internal Service Fund Equipment Rental	Total
2006	\$ 41,072	\$ 31,353	\$ 72,425
2007	44,806	5,700	50,506
2008	37,339	-	37,339
Total minimum payments	123,217	37,053	160,270
Less: amount representing interest	(5,305)	(1,101)	(6,406)
Present value of minimum lease payments	<u>\$ 117,912</u>	<u>\$ 35,952</u>	<u>\$ 153,864</u>

NOTE 6 – DEFERRED REVENUE

Deferred revenue represents amounts for the Etiwanda / San Sevaine project held in outside bank accounts where revenue recognition has not yet occurred. Deferred revenue is \$78,999 at June 30, 2005.

NOTE 7– LOANS PAYABLE

Loans Payable consist of loans from the United States Department of the Interior, Bureau of Reclamation for \$15,784,892 for the Etiwanda / San Sevaine project and \$3,953,417 for the Day Creek project, the City of Loma Linda Redevelopment Agency for \$165,000, and the United States Army Corp of Engineers for \$6,000,000 for a grand total of \$25,903,309.

Flood Control entered into a loan agreement with the Bureau of Reclamation, for the construction of the Etiwanda / San Sevaine Creek Water Project. Amounts owed are determined annually until the project is completed (approximately 8 years) based on costs incurred but will not exceed \$20 million. After completion, the County has 15 years to pay back the liability along with 7% interest. The project was not completed as of June 30, 2005 and the final loan balance and repayment schedule for the \$15,784,892 has not been determined at this time.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 7 – LOANS PAYABLE – *Continued*

Flood Control entered into a contract with the Bureau of Reclamation, for construction of the Day Creek Project. A subsequent agreement between Flood Control and the City of Rancho Cucamonga Redevelopment Agency (Agency) provides the source of funds for repayment of the Bureau of Reclamation loan. Payments are reflected in Zone 1 as a loan receivable (from the Agency) and debt service-principal (to Bureau of Reclamation). These agreements are to be in force approximately 24 years or until the project is complete and the federal loan is repaid. Payments commenced in 1992 and the remaining balance of the loan as of June 30, 2005, is \$3,953,417 (See Note 3).

Flood Control entered into a contract to reimburse the City of Loma Linda Redevelopment Agency for the San Timeteo Creek Project. The County agreed to pay the City of Loma Linda Redevelopment Agency \$1,200,000 (interest free) as funds become available beginning in fiscal year ending June 30, 2002. There is still a remaining unpaid balance at June 30, 2005 of \$165,000, which will remain until the San Timeteo Creek Project is completed.

Flood Control entered into a loan agreement with the United States Army Corp of Engineers for the San Timeteo Creek Project. The County has agreed to pay back the loan and accrued interest upon completion of the project. (Interest is to be determined by the Secretary of the Treasury upon completion of the project.) This project was not completed as of June 30, 2005. The unpaid loan balance at June 30, 2005 was \$6,000,000.

The following is a schedule by year of future loan repayments as of June 30, 2005:

Year Ending June 30,	City of Loma Linda RDA San Timeteo Creek	Army Corps of Engineers San Timeteo	Dept. of Interior Bureau of Rec. San Sevaine	Dept. of Interior Bureau of Rec. Day Creek	Total
2006	\$ -	\$ -	\$ -	\$ 681,315	\$ 681,315
2007	-	-	-	681,315	681,315
2008	-	-	-	681,315	681,315
2009	-	-	-	681,315	681,315
2010-2012	165,000	6,000,000	15,784,892	1,228,157	23,178,049
	<u>\$ 165,000</u>	<u>\$ 6,000,000</u>	<u>\$ 15,784,892</u>	<u>\$ 3,953,417</u>	<u>\$25,903,309</u>

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 8 – LONG TERM OBLIGATIONS

A schedule of changes in long-term obligations of the District during fiscal year 2005 follows:

	<u>Principal Outstanding June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Principal Outstanding June 30, 2005</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
Capital Leases	\$ 158,335	\$ -	\$ 40,423	\$ 117,912	\$ 38,182
Compensated Absences	1,397,447	146,321	-	1,543,768	-
Loan-Bureau of Rec. San Sevaine	12,804,051	2,980,841	-	15,784,892	-
Loan-Bureau of Rec. Day Creek	4,634,732	-	681,315	3,953,417	681,315
Loan City of Loma Linda-Redevelopment	165,000	-	-	165,000	-
U.S. Army Corp of Engineers	6,000,000	-	-	6,000,000	-
Total Governmental	<u>\$ 25,159,565</u>	<u>\$3,127,162</u>	<u>\$721,738</u>	<u>\$ 27,564,989</u>	<u>\$719,497</u>
Business-Type Activities					
Capital Leases	\$ 67,391	\$ -	\$ 31,439	\$ 35,952	\$ 32,972
Total Business Type	<u>\$ 67,391</u>	<u>\$ -</u>	<u>\$ 31,439</u>	<u>\$ 35,952</u>	<u>\$ 32,972</u>

NOTE 9 – CUSTOMER DEPOSITS

Customer Deposits represent amounts held by the District on behalf of customers that are required to make deposits for various projects that require rights of way and easements and access to water for construction purposes.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 10 – NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	Governmental Activities	Internal Service Fund Activities	Total
Invested in Capital Assets, Net of Related Debt June 30, 2005:			
Net structures, construction in progress, dams, channels, drainage systems, equipment and vehicles	\$ 202,542,818	\$ 4,703,879	\$ 207,246,697
Less: Loans payable on infrastructure and capital leases on vehicles and equipment	(26,021,221)	(35,952)	(26,057,173)
	176,521,597	4,667,927	181,189,524
Restricted for Etiwanda / San Sevaine project	172,952	-	172,952
Unrestricted	57,956,727	1,938,299	59,895,026
Total Net Assets	\$ 234,651,276	\$ 6,606,226	\$ 241,257,502

NOTE 11– RETENTIONS PAYABLE

The District generally retains 10% of construction contracts until contracts are completed and approved. Some contracts require that the retention be deposited into an escrow account. For all others, the final 10% payment is not made until the work is completed and approved. At June 30, 2005, the District's Retentions Payable balance was \$179,003, of which \$12,708 was on deposit with an external fiscal agent while Flood Control held \$166,295.

NOTE 12 – DUE TO OTHER GOVERNMENTS

At June 30, 2005, the \$3,842,618 balance is composed of the following: \$3,021,676 due to Orange County as reimbursement for their fronted share of cost of the Seven Oaks Dam Project; \$820,942 is for vehicle rentals, equipment usage, and direct labor costs rendered by other governments. The amount due for the Seven Oaks Dam project represents eminent domain deposits the courts placed with the District on behalf of the local county flood control district sponsors: the Counties of Riverside, San Bernardino and Orange.

This payment is the excess share of cost allocated to Orange County at the completion of the project. Riverside's share has been paid.

**County Of San Bernardino
Flood Control District
Notes to the Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 13 – RETIREMENT PLAN (*amounts reported in the thousands*)

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (AQMD), were later included, along with the County of San Bernardino (County), and are collectively referred to as the Participating Members. The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2005.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.37% - 12.28% for general members and 10.23% - 14.24% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 8.44%, County safety 18.01%. All employers combined are required to contribute 14.01% of the current year covered payroll. For 2005, the County's annual pension cost of \$141,450 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County Of San Bernardino
Flood Control District
Notes to the Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 13 – RETIREMENT PLAN (*amounts reported in the thousands*) – **Continued**

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2005, were as follows:

Annual Required Contribution (County fiscal year basis)	\$ 141,450
Interest On Pension Assets	(34,779)
Adjustment To The Annual Required Contribution	38,135
Annual Pension Cost	144,806
Annual Contributions Made	141,450
Increase/(Decrease) in Pension Assets	(3,356)
Pension Asset, Beginning of Year (As Restated)	848,238
Pension Asset, End of Year	\$ 844,882

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

<u>Year Ended June 30,</u>	<u>Annual Pension Cost</u>		<u>Percentage Contributed</u>
	<u>SBCERA</u>	<u>County</u>	
2003	\$ 68,361	\$ 59,673	100%
2004	652,325	540,106	100%
2005	161,906	141,450	100%

The County, along with the AQMD, issued Pension Refunding Bonds (Bonds) in November 1995 with an aggregate amount of \$420,527. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266. The current amount outstanding at June 30, 2005 is \$439,539.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070, \$149,825, and \$125,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the S.B.C.E.R.A. The current amount outstanding at June 30, 2005 is \$463,895.

**County Of San Bernardino
Flood Control District
Notes to the Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 14 – PROPOSTION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2004-2005 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 15 – SELF INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the Division except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR and IBNS liabilities stated on the Division's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 3.50%. It is the Division's practice to obtain actuarial studies on an annual basis.

The Division has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The Division's investment in the agreement totaled \$47.3 million at June 30, 2005.

**County Of San Bernardino
Flood Control District
Notes to the Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 15 – SELF INSURANCE - *Continued*

The total claims liability of \$115.7 million reported at June 30, 2005 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2004 and 2005 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
2003-04	\$93,802	\$45,128	(\$37,221)	\$101,709
2004-05	\$101,709	\$44,309	(\$30,304)	\$115,714

NOTE 16 – TRANSFERS TO/FROM OTHER FUNDS

Interfund Transfers To/From transactions are used to reimburse an operating fund, and/or transfer cash between operating funds and capital project funds. When aggregating data for the government wide Statement of Net Assets and the Statement of Activities, amounts between Internal Service Funds and Governmental Funds reported as interfund activity and balances in the fund financial statements are eliminated. For the year ended June 30, 2005, the District had the following interfund activities:

RFA	653-FUND CONTR TO RFZ	\$ 262,300
RFF	653-FUND CONTR TO RFZ	111,000
RFL	653-FUND CONTR TO RFZ	58,900
RFQ	653-FUND CONTR TO RFZ	6,000
RFT	653-FUND CONTR TO RFZ	75,000
RFV	653-FUND CONTR TO RFZ	23,200
RFG	771-FUND TRNF TO RFM	221,870
RFG	772-FUND TRNF TO RFM/RFL	243,057
RFA	847-CASH TRANSFER	40,000

**County Of San Bernardino
Flood Control District
Notes to the Financial Statements
For The Fiscal Year Ending June 30, 2005**

NOTE 16 – TRANSFERS TO/FROM OTHER FUNDS – *Continued*

RFA	885-CASH TRF FR RFA	2,764,466
RFA	833-FUND CONT TO RFZ	262,300
RFF	833-FUND CONT TO RFZ	111,000
RFL	833-FUND CONT TO RFZ	58,900
RFQ	833-FUND CONT TO RFZ	75,000
RFT	833-FUND CONT TO RFZ	6,000
RFV	833-FUND CONT TO RFZ	23,200
RFZ	653-FUND CONTR TO RFZ	(536,400)
RFL	772-FUND REIMB FR RFG	(175,777)
RFM	771-FUND REIMB FR RFG	(221,870)
RFM	772-FUND REIMB FR RFG	(67,280)
RFC	847-CASH TRANSFER	(40,000)
RFZ	883-INTERFUND CONTRIBUTION	(536,400)
RFD	885-CASH TRF FR RFA	(2,764,466)
		<u>\$ -</u>

NOTE 17– COMMITMENTS AND CONTINGENCIES

The county has been named as a defendant in numerous lawsuits and claims arising in the normal course of operations. Colonies Partners L.P. filed an inverse condemnation action against the San Bernardino County Flood Control District. The action seeks damages for the loss of residential development property due to increasing the size of a flood control basin in order to accommodate storm water runoff. On July 31, 2006 a judgment was made against the San Bernardino County, Flood Control District in this action. This ruling does not address the monetary liability, if any, incurred by the District. On August 16, 2005, Sukut Construction filed a claim against the San Bernardino Flood Control District for damages based on soil conditions regarding the Riverside Storm Drain Project. Strong defenses exist that the Flood Control District will assert. Both claims seek monetary damages in significant amounts. In the opinion of County management and County Counsel, the ultimate outcome of the remaining claims cannot be determined at this time.

**County Of San Bernardino
Flood Control District
Budgetary Comparison Schedule - Governmental Funds
For The Fiscal Year Ending June 30, 2005**

SCHEDULE 1

Flood Control	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance July 1, 2004	\$ 43,850,027	\$ 62,107,042	\$ 68,974,035	\$ 6,866,993
Resources (inflows):				
Property Taxes	20,829,801	20,927,656	24,523,639	3,595,983
Use of Money and Property	2,892,200	2,748,500	2,502,340	(246,160)
Other Governmental Aid	45,191,111	32,906,286	18,158,308	(14,747,978)
Charges for Services	89,100	8,300	1,638,214	1,629,914
Other Revenue	713,965	713,965	3,405,783	2,691,818
Operating Transfers In	-	-	4,342,193	4,342,193
Amounts available for appropriation	113,566,204	119,411,749	123,544,512	4,132,763
Charges to appropriations (outflows)				
Salaries and Benefits	11,816,983	11,816,983	10,730,957	1,086,026
Services and Supplies	96,795,842	102,851,885	37,123,557	65,728,328
Other Charges	5,208,153	4,878,380	715,252	4,163,128
Capital Outlay	179,300	104,300	14,912,523	(14,808,223)
Operating Transfers Out	393,600	533,703	4,342,193	(3,808,490)
Reimbursements	(827,674)	(773,502)	-	(773,502)
Total charges to appropriations	113,566,204	119,411,749	67,824,482	51,587,267
Budgetary Fund Balance, June 30, 2005	\$ -	\$ -	\$ 55,720,030	\$ 55,720,030

County Of San Bernardino Flood Control District
Combining Balance Sheet
Special Revenue Funds
June 30, 2005

SCHEDULE 2

	ZONE						MISSION		ETIWANDA		BLEDSOE	CTY STRM	
	TOTAL	1	2	3	4	5	6	ADMIN	ZANJA	DRAINAGE	CREEK	NPDES	WATER
ASSETS													
Cash in treasury	\$ 46,844,793	\$ 20,509,723	\$ 3,372,104	\$ 2,041,332	\$ 12,077,542	\$ 1,261,520	\$ 1,812,450	\$ 1,081,543	\$ 187,073	\$ 3,863,440	\$ 75,556	\$ 433,101	\$ 129,409
Cash with fiscal agent	12,708	12,708	-	-	-	-	-	-	-	-	-	-	-
Restricted cash	172,952	172,952	-	-	-	-	-	-	-	-	-	-	-
Customer deposits	60,000	60,000	-	-	-	-	-	-	-	-	-	-	-
Subtotal cash and investments	47,080,453	20,755,383	3,372,104	2,041,332	12,077,542	1,261,520	1,812,450	1,081,543	187,073	3,863,440	75,556	433,101	129,409
Interest receivable	308,278	132,570	18,650	15,570	88,198	7,821	10,700	5,003	1,179	24,084	476	3,449	578
Taxes receivable	1,582,353	715,957	295,670	185,248	210,301	17,737	63,997	93,443	-	-	-	-	-
Due from other governments	12,153,670	6,505,834	-	24,755	5,050,000	300,000	74,018	147,788	-	-	-	51,275	-
Total Assets	\$ 61,134,754	\$ 28,109,744	\$ 3,686,424	\$ 2,266,905	\$ 17,426,041	\$ 1,587,078	\$ 1,961,165	\$ 1,327,777	\$ 188,252	\$ 3,887,524	\$ 76,032	\$ 487,825	\$ 129,987
LIABILITIES AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ 451,086	\$ 20,054	\$ 406,532	\$ -	\$ 24,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Salaries and benefits payable	666,598	277,971	157,929	125,700	81,755	3,343	16,853	3,047	-	-	-	-	-
Retentions payable	179,003	61,719	62,900	-	32,596	-	21,788	-	-	-	-	-	-
Due to other governments	3,842,618	156,903	2,056,987	1,444,886	11,393	848	8,362	119,667	-	-	-	22,510	21,062
Deferred revenue	78,999	60,099	18,900	-	-	-	-	-	-	-	-	-	-
Customer deposits	196,420	66,420	130,000	-	-	-	-	-	-	-	-	-	-
Total liabilities	5,414,724	643,166	2,833,248	1,570,586	150,244	4,191	47,003	122,714	-	-	-	22,510	21,062
Fund Balances:													
Reserved for encumbrances	14,459,356	6,905,894	1,564,176	144,887	5,031,493	330,893	84,501	169,805	-	-	-	227,707	-
Unreserved	41,260,674	20,560,684	(711,000)	551,432	12,244,304	1,251,994	1,829,661	1,035,258	188,252	3,887,524	76,032	237,608	108,925
Total fund balances	55,720,030	27,466,578	853,176	696,319	17,275,797	1,582,887	1,914,162	1,205,063	188,252	3,887,524	76,032	465,315	108,925
Total liabilities and fund balances	\$ 61,134,754	\$ 28,109,744	\$ 3,686,424	\$ 2,266,905	\$ 17,426,041	\$ 1,587,078	\$ 1,961,165	\$ 1,327,777	\$ 188,252	\$ 3,887,524	\$ 76,032	\$ 487,825	\$ 129,987

County Of San Bernardino Flood Control District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Special Revenue Funds
For the Fiscal Year Ended June 30, 2005

SCHEDULE 3

	ZONE 1	ZONE 2	ZONE 3	ZONE 4	ZONE 5	ZONE 6	ADMIN	MISSION ZANJA	ETIWANDA DRAINAGE	BLED SOE CREEK	NPDES	CTY STRM WATER
REVENUES	TOTAL											
Property taxes	\$ 10,667,243	\$ 4,337,679	\$ 2,362,672	\$ 2,977,801	\$ 244,382	\$ 889,153	\$ 1,357,804	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	1,640,835	329,448	165,148	187,494	16,569	52,798	98,476	-	-	-	-	-
Governmental aid	18,158,308	3,227,564	1,205,827	400,934	5,076	422,844	(2,397)	-	-	-	1,039,750	-
Licenses, permits and franchises	46,070	21,362	5,649	3,566	-	114	-	-	-	-	-	-
Rents and concessions	339,497	114,418	2,138	23,023	-	7,400	-	-	-	-	-	-
Royalties	1,023,885	711,425	463	19,637	-	-	-	-	-	-	-	-
Interest	1,138,958	498,664	53,630	328,690	24,481	28,525	13,453	3,837	77,674	1,550	9,538	666
Other revenues	1,638,214	264,210	730,248	9,102	598	(3,486)	3,554	364	196,080	147	239,993	136,922
Total revenues	46,822,501	24,926,934	4,525,775	3,950,247	291,106	1,397,348	1,470,890	4,201	273,754	1,697	1,289,281	137,588
EXPENDITURES												
Salaries and benefits	10,573,417	3,377,932	1,811,662	1,203,367	51,450	266,390	1,031,048	-	-	-	169,326	27,632
Services and supplies	37,063,632	15,452,457	3,933,424	1,938,776	27,224	190,569	1,094,866	-	-	-	1,000,160	1,031
Debt services:												
Principal	681,315	-	-	-	-	-	-	-	-	-	-	-
Interest	33,937	29,554	-	-	-	-	4,383	-	-	-	-	-
Other charges	59,925	4,515	2,605	9,901	27,097	12,411	3,396	-	-	-	-	-
Capital outlay	14,912,523	1,982,048	622,090	663,281	32,288	561	40,423	-	-	-	-	-
Interfund transfers in (out) net	157,540	19,417	7,243	9,243	800	2,848	71,681	-	-	-	-	-
Total expenditures	63,482,289	31,163,913	6,377,024	3,824,568	138,859	472,779	2,245,797	-	-	-	1,169,486	28,663
Excess (deficiency) of revenues over expenditures	(16,659,788)	(9,507,520)	(1,851,249)	125,679	152,247	924,569	(774,907)	4,201	273,754	1,697	119,795	108,925
OTHER FINANCING SOURCES (USES)												
Operating transfers in	4,342,193	2,804,467	464,926	-	-	-	1,072,800	-	-	-	-	-
Operating transfers out	(4,342,193)	(3,329,066)	(117,800)	(150,000)	(12,000)	(46,400)	-	-	-	-	-	-
Sale of fixed assets	3,405,783	3,379,308	5,850	13,200	-	-	-	-	-	-	-	-
Total other financing sources (uses)	3,405,783	2,854,709	352,976	(136,800)	(12,000)	(46,400)	1,072,800	-	-	-	-	-
Excess of revenues and other financing sources over expenditures and other financing uses	(13,254,005)	(3,382,270)	(1,498,273)	(11,121)	140,247	878,169	287,893	4,201	273,754	1,697	119,795	108,925
Fund balance July 1, 2004	68,974,035	30,848,848	11,040,198	17,286,918	1,442,640	1,035,993	907,170	184,051	3,613,770	74,335	345,520	-
Fund balance June 30, 2005	\$ 55,720,030	\$ 27,466,578	\$ 853,176	\$ 17,275,797	\$ 1,582,887	\$ 1,914,162	\$ 1,205,063	\$ 188,252	\$ 3,887,524	\$ 76,032	\$ 465,315	\$ 108,925